

Legislative Analysis



REIMBURSEMENT FOR UPGRADES MADE BY DIGITAL STAMP AGENTS

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Senate Bill 1017 (Substitute S-2)
Sponsor: Sen. Roger Kahn, M.D.
House Committee: Regulatory Reform
Senate Committee: Finance

(Enacted as PA 298 of 2014)

Complete to 9-8-14

A SUMMARY OF SENATE BILL 1017 AS PASSED BY THE SENATE 8-13-14

Senate Bill 1017 would amend Section 7 of the Tobacco Products Tax Act by allowing stamping agents to claim compensation and/or reimbursement related to the state's transition from heat-applied tobacco tax stamps to digital stamps in accordance with Public Act 188 of 2012.

Under the bill, a stamping agent would be able to claim compensation for the direct costs actually incurred by that agent for the initial and one-time purchase of case packers or similar machines or conveyers, as determined by the Department of Treasury and reflected in the net purchase price. Machines used for the following purposes would be eligible if the specified conditions are met:

- Case packers or similar machines to be used exclusively to repack cigarette cartons into case boxes after digital stamps have been applied by eligible equipment to the individual packages of cigarettes contained within those cigarette cartons. To be eligible, the packers or similar machines must be in addition to, and not replacements for, one or more case packers or similar machines which do not use the digital stamps authorized in the act.
- Conveyers to be used exclusively for that portion of a cigarette stamping line that is necessary for, and dedicated to, cigarette stamping operations using eligible equipment to affix digital stamps to individual packages of cigarettes to be sold in this state. To be eligible, the cigarette stamping line conveyers must be in addition to, and not replacements for, one or more distinct and existing cigarette stamping lines using non-digital stamping machines which do not use the stamps authorized in the act. The compensation could not exceed a total of 50% of the amount reimbursed under Section 7e (i.e., a portion of costs of the initial purchase of eligible equipment) for any particular stamping agent.

Section 7e would be changed to also allow the reimbursement of any applicable sales or use taxes paid and shipping and crating charges actually incurred by the stamping agent for the initial purchase of eligible equipment.

The bill also specifies that, beginning in the first calendar month following the implementation of the use of digital stamps, for licensees who are stamping agents, reimbursement would be provided for qualified equipment costs actually incurred by the stamping agent, other than those noted above, as determined by the department, up to a maximum of \$60,000 for all stamping agents combined.

Qualified equipment would be defined as equipment that was placed in service by a stamping agent that included conveyors and additional associated electrical line and compressed air line before August 15, 2014, in connection with the implementation of a digital stamping line under a pilot program with the department as determined by the department. Qualified equipment would not include the cost of installation of a conveyor.

FISCAL IMPACT:

As written, the bill would reduce state tobacco tax revenues. The extent of this reduction corresponds with the amount of money spent on new equipment for use in the digital stamping of cigarette packs by authorized stamping agents in the State of Michigan. Further research is required to put a dollar estimate on this impact, and is ongoing.

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